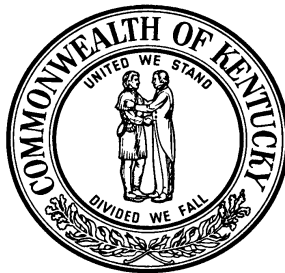


**REPORT OF THE AUDIT OF THE  
MARTIN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MARTIN COUNTY FISCAL COURT**

**June 30, 2009**

The Auditor of Public Accounts has completed the audit of the Martin County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions, on the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Martin County, Kentucky.

**Financial Condition:**

The fiscal court had net assets of \$5,999,811 as of June 30, 2009, with unrestricted net assets of \$2,726,376 in its governmental activities. The fiscal court's discretely presented component unit had net assets of \$8,834,279 as of June 30, 2009. The discretely presented component unit had total cash and cash equivalents of \$333,567. The fiscal court had total debt principal as of June 30, 2009 of \$2,571,585 with \$1,118,611 due within the next year. The discretely presented component unit had no debt as of June 30, 2009.

**Report Comments:**

- The County Should Pay For Purchases Within 30 Working Days Of Receipt Of Vendor Invoices
- The County Judge/Executive Should Direct The Economic Development Authority To Maintain Complete And Accurate Records

**Deposits:**

The Fiscal Court's deposits as of August 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$682,280

The Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Kelly Callahan, Martin County Judge/Executive  
Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Martin County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Martin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Martin County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Martin County, Kentucky, as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with the modified cash basis of accounting.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Schedules are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Kelly Callaham, Martin County Judge/Executive  
Members of the Martin County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Martin County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2010, on our consideration of Martin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Pay For Purchases Within 30 Working Days Of Receipt Of Vendor Invoices
- The County Judge/Executive Should Direct The Economic Development Authority To Maintain Complete And Accurate Records

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

August 5, 2010



MARTIN COUNTY OFFICIALS

For The Year Ended June 30, 2009

**Fiscal Court Members:**

Kelly Callaham	County Judge/Executive
Gary Hunt	Magistrate
Glen Ray Maynard	Magistrate
Gretta Ward	Magistrate
Victor Slone	Magistrate
Sam Whitt	Magistrate

**Other Elected Officials:**

Kennis Maynard	County Attorney
Boone Mahon	Jailer
Carol Sue Mills	County Clerk
Jack H. Horn	Circuit Court Clerk
Garmon Preece	Sheriff
Bobby Hale	Property Valuation Administrator
Joe Mullins	Coroner

**Appointed Personnel:**

Linda Sumpter	County Treasurer
Donna Callaham	Finance Officer

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**MARTIN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



**MARTIN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental</u>	<u>Economic</u>
	<u>Activities</u>	<u>Development</u>
		<u>Authority</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,379,891	\$ 333,567
Receivable From Library District	50,000	
Receivable From Water Company	5,000	
Receivable From Fire District	10,820	
Assets Held For Resale	682,791	
Total Current Assets	<u>3,128,502</u>	<u>333,567</u>
Noncurrent Assets:		
Receivables - Long Term	1,042,974	
Capital Assets - Net of Accumulated Depreciation		
Land and Land Improvements	637,985	943,600
Buildings	2,031,051	7,557,112
Equipment	344,479	
Vehicles	124,359	
Infrastructure	1,262,046	
Total Noncurrent Assets	<u>5,442,894</u>	<u>8,500,712</u>
Total Assets	<u>8,571,396</u>	<u>8,834,279</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Bonds Payable	190,000	
Financing Obligations Payable	928,611	
Total Current Liabilities	<u>1,118,611</u>	
Noncurrent Liabilities:		
Bonds Payable	1,055,000	
Financing Obligations Payable	397,974	
Total Noncurrent Liabilities	<u>1,452,974</u>	
Total Liabilities	<u>2,571,585</u>	
<b>NET ASSETS</b>		
Invested in Capital Assets,		
Net of Related Debt	1,828,335	8,500,712
Restricted For:		
Debt Service - Library Bonds	800,000	
Debt Service - Water District	180,000	
Debt Service - Fire District	128,794	
Debt Service	336,306	
Unrestricted	2,726,376	333,567
Total Net Assets	<u>\$ 5,999,811</u>	<u>\$ 8,834,279</u>

The accompanying notes are an integral part of the financial statements.

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**MARTIN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**

**MARTIN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 3,290,863	\$ 30,283	\$ 2,829,389	\$
Protection to Persons and Property	809,354	2,827	60,463	83,641
General Health and Sanitation	951,920		260	
Social Services	233,409			
Recreation and Culture	425,343	1,788		1,541,530
Roads	107,105		1,102,164	369,356
Airport	207,997			
Debt Service	538,015	223,390		
Capital Projects	47,100			
Total Primary Government	<u>6,611,106</u>	<u>258,288</u>	<u>3,992,276</u>	<u>1,994,527</u>
<b>Component Unit:</b>				
Economic Development Authority	<u>220,345</u>	<u>68,888</u>		<u>4,681,048</u>
Total Component Unit	<u>\$ 220,345</u>	<u>\$ 68,888</u>	<u>\$ 0</u>	<u>\$ 4,681,048</u>

**General Revenues:**

Taxes:  
Real Property Taxes  
Personal Property Taxes  
Motor Vehicle Taxes  
Other Taxes  
Excess Fees  
Miscellaneous Revenues  
Accrued Interest Received

Total General Revenues  
Change in Net Assets  
Net Assets - Beginning (Restated)  
  
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**MARTIN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b><u>Primary Government</u></b>	
<b><u>Governmental Activities</u></b>	<b><u>Component Unit</u></b>
\$ (431,191)	\$
(662,423)	
(951,660)	
(233,409)	
1,117,975	
1,364,415	
(207,997)	
(314,625)	
<u>(47,100)</u>	
<u>(366,015)</u>	
	<u>4,529,591</u>
	<u>4,529,591</u>
360,073	
137,004	
77,499	
1,411,109	
21,095	
423,086	
<u>21,876</u>	<u>847</u>
<u>2,451,742</u>	<u>847</u>
<u>2,085,727</u>	<u>4,530,438</u>
<u>3,914,084</u>	<u>4,303,841</u>
<u>\$ 5,999,811</u>	<u>\$ 8,834,279</u>

The accompanying notes are an integral part of the financial statements.

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**MARTIN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

**MARTIN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>State Grants Fund</b>	<b>Occupational Tax Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 364,395	\$ 354,217	\$ 607,308	\$ 207,479	\$ 167,113
Total Assets	<u>364,395</u>	<u>354,217</u>	<u>607,308</u>	<u>207,479</u>	<u>167,113</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	13,951	13,184	1,289	11,643	6,855
Debt Service Fund					
Unreserved:					
General Fund	350,444				
Special Revenue Funds		341,033	606,019	195,836	160,258
Total Fund Balances	<u>\$ 364,395</u>	<u>\$ 354,217</u>	<u>\$ 607,308</u>	<u>\$ 207,479</u>	<u>\$ 167,113</u>

The accompanying notes are an integral part of the financial statements.

**MARTIN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2009**  
**(Continued)**

<b>Public Properties Corporation Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 336,306</u>	<u>\$ 343,073</u>	<u>\$ 2,379,891</u>
<u>336,306</u>	<u>343,073</u>	<u>2,379,891</u>
	5,264	52,186
336,306		336,306
		350,444
	<u>337,809</u>	<u>1,640,955</u>
<u>\$ 336,306</u>	<u>\$ 343,073</u>	<u>\$ 2,379,891</u>

**Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:**

Total Fund Balances	\$ 2,379,891
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	6,784,639
Accumulated Depreciation	(2,384,719)
Long-term Receivable Is Not Available To Pay for Current-Period Expenditures and, Therefore, Is Not Reported in the Funds	1,108,794
Assets Held For Resale Are Not Financial Resources And Therefore Are Not Reported in the Funds.	682,791
Long-term Debt Is Not Due and Payable in the Current Period And Therefore Is Not Reported in the Funds.	
Financing Obligations	(1,326,585)
Bonds	(1,245,000)
Net Assets Of Governmental Activities	<u>\$ 5,999,811</u>

The accompanying notes are an integral part of the financial statements.

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**MARTIN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

**MARTIN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>State Grants Fund</b>
<b>REVENUES</b>				
Taxes	\$ 777,273	\$	\$	\$
In Lieu Tax Payments	5			
Excess Fees	21,095			
Intergovernmental	177,396	1,254,515	2,378,032	1,623,971
Charges for Services	1,788		260	
Miscellaneous	313,188	214,360	15,969	
Interest	1,473	2,431	3,293	1,204
Total Revenues	<u>1,292,218</u>	<u>1,471,306</u>	<u>2,397,554</u>	<u>1,625,175</u>
<b>EXPENDITURES</b>				
General Government	984,575	18,000	52,005	66,828
Protection to Persons and Property	4,393		43,193	70,813
General Health and Sanitation			819,806	458,361
Social Services	4,200			12,297
Recreation and Culture			209,003	337,839
Roads		460,569	471,766	
Airport		207,997		
Debt Service	11,087	367,363	473,066	
Capital Projects				47,100
Administration	385,558	197,440	229,145	693,060
Total Expenditures	<u>1,389,813</u>	<u>1,251,369</u>	<u>2,297,984</u>	<u>1,686,298</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(97,595)</u>	<u>219,937</u>	<u>99,570</u>	<u>(61,123)</u>
<b>Other Financing Sources (Uses)</b>				
Financing Obligation Proceeds			372,336	
Transfers From Other Funds	210,000		45,000	87,882
Transfers To Other Funds	(69,687)	(147,100)	(408,319)	(30,000)
Total Other Financing Sources (Uses)	<u>140,313</u>	<u>(147,100)</u>	<u>9,017</u>	<u>57,882</u>
Net Change in Fund Balances	42,718	72,837	108,587	(3,241)
Fund Balances - Beginning	321,677	281,380	498,721	210,720
Fund Balances - Ending	<u>\$ 364,395</u>	<u>\$ 354,217</u>	<u>\$ 607,308</u>	<u>\$ 207,479</u>

The accompanying notes are an integral part of the financial statements.



**MARTIN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Occupational Tax Fund</b>	<b>Public Properties Corporation Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	\$	\$	\$ 777,273
			5
			21,095
1,280,528	223,390	353,407	7,291,239
			2,048
11,344		28,440	583,301
	11,596	1,875	21,872
<u>1,291,872</u>	<u>234,986</u>	<u>383,722</u>	<u>8,696,833</u>
29,633		239,570	1,390,611
302,812		341,331	762,542
25,747		20,342	1,324,256
60,000		140,550	217,047
177,711			724,553
118,576			1,050,911
			207,997
111,425	251,842		1,214,783
			47,100
232,132	22	116,440	1,853,797
<u>1,058,036</u>	<u>251,864</u>	<u>858,233</u>	<u>8,793,597</u>
233,836	(16,878)	(474,511)	(96,764)
			372,336
86		477,920	820,888
<u>(150,782)</u>		<u>(15,000)</u>	<u>(820,888)</u>
<u>(150,696)</u>		<u>462,920</u>	<u>372,336</u>
83,140	(16,878)	(11,591)	275,572
83,973	353,184	354,664	2,104,319
<u>\$ 167,113</u>	<u>\$ 336,306</u>	<u>\$ 343,073</u>	<u>\$ 2,379,891</u>

The accompanying notes are an integral part of the financial statements.

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**MARTIN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**MARTIN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ 275,572
<p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	1,460,643
Depreciation Expense	(257,979)
Construction in Progress Completed	(391,045)
Assets Held for Resale	372,336
<p>Payment on Receivables Provide Current Financial Resources to Governmental Funds, While at the Government-wide Level, a Reduction of the Receivable Occurs. These Transactions Have no Effect on Net Assets.</p>	
Receivable Receipts	(64,446)
<p>The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect on Net Assets.</p>	
Financing Obligation Proceeds	(372,336)
Financing Obligations Payments	877,982
Bond Payments	<u>185,000</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,085,727</u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Martin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Unit**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Martin County Public Properties Corporation**

The fiscal court appoints the voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Discretely Presented Component Unit

The component unit's column in the government-wide financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize the organization's separateness from the fiscal court's primary government.

**Economic Development Authority**

The Economic Development Authority is a legally separate entity established to administer economic development projects for Martin County. The fiscal court appoints all of the Economic Development Authority's governing board and is financially accountable for the Economic Development Authority. However, the Economic Development Authority does not provide services exclusively to the fiscal court. Financial information for the Economic Development Authority is presented discretely within Martin County's financial statements. All activities of the Economic Development Authority are accounted for within a governmental fund. The Economic Development Authority does not issue its own separate financial statements.

**C. Martin County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Martin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Martin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff



**MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Generally and except as otherwise proved by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1st following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Major individual governmental funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for funds that must be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, and industrial and economic development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

State Grants Fund - The primary purpose of this fund is to account for state grants and corresponding disbursements.

Occupational Tax Fund - The primary purpose of this fund is to account for receipts and disbursements related to the county's occupational tax collections.

Public Properties Corporation Bond Fund - The primary purpose of this fund is to account for debt service requirements of revenue bonds of the Martin County Public Properties Corporation, a blended component unit of the county. The Martin County Public Properties Corporation issues debt to build major facilities or additions to existing facilities. The Martin County Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Department for Local Government does not require the fiscal court to report or budget these funds.

The government also has the following non-major funds: Jail Fund, Pride Grant Fund, Forestry Fund, Local Government Economic Development Fund, Housing and Urban Development Fund, and the Sheriff's Office Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grants Fund, Pride Grant Fund, Forestry Fund, Occupational Tax Fund, Local Government Economic Development Fund, Sheriff's Office Fund and HUD Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Debt Service Fund:**

The Public Properties Corporation Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Presentation of Component Units**

The financial statements present the following major discretely presented component unit: Economic Development Authority.

This component unit is presented in a separate column in the government-wide financial statements. It is reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. The Economic Development Authority has adopted the government's capitalization policy.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations is reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Bond Fund and the Economic Development Authority (the discretely presented component unit). The Department for Local Government does not require the fiscal court to report or budget these funds.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 2. Deposits**

The Martin County Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The Martin County Fiscal Court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 31, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$682,280

**Note 3. Operating Leases**

**A. Real Property**

On February 17, 1987, Martin County Fiscal Court entered into a lease agreement with the Kentucky Transportation Cabinet for the use of real property. The total amount of the lease over its full term was \$136,000. The agreement requires annual payments of \$4,533 for 30 years to be paid in full January 1, 2017. The principal balance of the agreement was \$36,268 as of June 30, 2009.

**B. Garage**

On January 5, 2005, Martin County Fiscal Court entered into a lease agreement with the Kentucky Transportation Cabinet for the use of a garage. The total amount of the lease over its full term was \$150,000. The agreement requires annual payments of \$30,000 for 5 years to be paid in full June 30, 2010. The principal balance of the agreement was \$30,000 as of June 30, 2009.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>	(Restated)			
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 255,315	\$ 382,670	\$	\$ 637,985
Construction in Progress	391,045		391,045	
Total Capital Assets Not Being Depreciated	646,360	382,670	391,045	637,985
Capital Assets, Being Depreciated:				
Buildings	2,529,541	253,941		2,783,482
Equipment	1,072,188	178,401		1,250,589
Vehicles	665,921	39,978		705,899
Infrastructure	801,031	605,653		1,406,684
Total Capital Assets Being Depreciated	5,068,681	1,077,973		6,146,654
Less Accumulated Depreciation For:				
Buildings	(707,280)	(45,151)		(752,431)
Equipment	(787,003)	(119,107)		(906,110)
Vehicles	(530,620)	(50,920)		(581,540)
Infrastructure	(101,837)	(42,801)		(144,638)
Total Accumulated Depreciation	(2,126,740)	(257,979)		(2,384,719)
Total Capital Assets, Being Depreciated, Net	2,941,941	819,994		3,761,935
Governmental Activities Capital Assets, Net	\$ 3,588,301	\$ 1,202,664	\$ 391,045	\$ 4,399,920

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 46,455
Protection to Persons and Property	97,290
Recreation and Culture	15,191
Social Services	16,362
Roads, Including Depreciation of General Infrastructure Assets	<u>82,681</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 257,979</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

Capital asset activity for the discretely presented component unit for the year ended June 30, 2009 was as follows:

	Component Unit			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital Assets Not Being Depreciated:				
Land	\$ 435,600	\$ 498,000	\$	\$ 933,600
Land Improvements	10,000			10,000
Construction In Progress	1,016,501		(1,016,501)	
Total Capital Assets Not Being Depreciated	1,462,101	498,000	(1,016,501)	943,600
Capital Assets, Being Depreciated:				
Buildings	2,611,048	5,191,560		7,802,608
Total Capital Assets Being Depreciated	2,611,048	5,191,560		7,802,608
Less Accumulated Depreciation For:				
Buildings	(102,393)	(143,103)		(245,496)
Total Capital Assets, Being Depreciated, Net	2,508,655	5,048,457		7,557,112
Capital Assets, Net	<u>\$ 3,970,756</u>	<u>\$ 5,546,457</u>	<u>\$ (1,016,501)</u>	<u>\$ 8,500,712</u>

Depreciation expense was charged to functions of the discretely presented major component unit as follows:

Component Unit:

General Government	<u>\$ 143,103</u>
Total Depreciation Expense - Component Unit	<u>\$ 143,103</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 5. Receivable**

**A. Public Properties Corporation**

In January 2001, the Martin County Public Properties Corporation, a component unit of the Martin County Fiscal Court, issued \$1,125,000 in first mortgage revenue bonds for the Martin County Library District. Bond proceeds were paid directly to the Martin County Library Board. The Martin County Library Board makes lease payments directly to the bond trustee to pay principal and interest on the bonds. We have booked a receivable due from the Martin County Library District in the amount of bond principal outstanding. As of June 30, 2009, the amount receivable was \$800,000. The amount receivable corresponds to the Library District Bonds outstanding as of the end of the fiscal year.

**B. Martin County Water Company**

In July 2005, the Martin County Fiscal Court issued financing obligations of \$200,000 to the Martin County Water Company. Financing proceeds were paid directly to the Water Company. The Water Company makes the lease payments directly to the trustee of the note to pay principal and interest. The receivable reflects the principal amount due from the Martin County Water Company of \$180,000 outstanding as of June 30, 2009. The amount receivable corresponds to the Martin County Water Company liability outstanding as of the end of the fiscal year.

**C. Inez Fire District**

In February 2007, the Martin County Fiscal Court issued financing obligations of \$152,000 to the Martin County Inez Fire District. Financing proceeds were paid directly to the Fire District. The Fire District makes the lease payments directly to the trustee of the note to pay principal and interest. The receivable reflects the principal amount due from the Martin County Inez Fire District of \$128,794 outstanding as of June 30, 2009. The amount receivable corresponds to the Martin County Inez Fire District liability outstanding as of the end of the fiscal year.

**Note 6. Long-term Debt**

**A. Road Improvements and Land Acquisitions - Financing Obligation**

On December 1, 2000, Martin County entered into a lease agreement with Kentucky Area Development District leasing trust program for road improvements and land acquisition. The principal amount of the lease was \$1,025,000. The agreement requires variable monthly payments for 10 years to be paid in full June 1, 2010. The principal balance of the agreement was \$125,000 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 125,000	\$ 7,969
Totals	<u>\$ 125,000</u>	<u>\$ 7,969</u>



**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**B. 1998 Refinancing Bonds**

In March 1998, the Martin County Public Properties Corporation, a component unit of the Martin County Fiscal Court, issued \$1,660,000 in refunding revenue bonds to refinance the Courthouse Annex. The bonds require semiannual interest payments due September 1 and March 1 and one principal payment each year due September 1. The Administrative Office of the Courts makes lease payments directly to the bond trustee in order to pay principal and interest. The bonds will mature March 1, 2012. As of June 30, 2009 the principal amount outstanding was \$445,000. Bond payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 140,000	\$ 17,625
2011	150,000	10,810
2012	155,000	3,643
Totals	<u>\$ 445,000</u>	<u>\$ 32,078</u>

**C. Library District Bonds**

In January 2001, the Martin County Public Properties Corporation, a component unit of the Martin County Fiscal Court, issued \$1,125,000 in first mortgage revenue bonds for the Martin County Library District. Bond proceeds were paid directly to the Martin County Library Board for the renovation of the library building. The bonds require semiannual interest payments due in October and April and one principal payment due in October. The Martin County Library Board makes lease payments directly to the bond trustee in order to pay principal and interest. The bonds will mature April 1, 2021. As of June 30, 2009, the principal amount outstanding was \$800,000. The principal amount outstanding corresponds to the receivable due to the county. Bond payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 50,000	\$ 40,523
2011	50,000	38,148
2012	55,000	35,773
2013	60,000	33,104
2014	60,000	30,195
2015-2019	360,000	109,970
2020-2021	165,000	4,240
Totals	<u>\$ 800,000</u>	<u>\$ 291,953</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**D. Sanitation Equipment - 2005 Financing Obligation**

On September 30, 2004, Martin County Fiscal Court entered into a lease agreement with the Kentucky Area Development District for the purchase of two dump trucks. In October 2005 the lease agreement was refinanced with the final interest and principal payment due in October 2010. As of June 30, 2009, the principal amount outstanding was \$210,000. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 105,000	\$ 7,220
2011	105,000	2,508
Totals	<u>\$ 210,000</u>	<u>\$ 9,728</u>

**E. Sanitation Equipment – Financing Obligation**

On September 7, 2007, Martin County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for sanitation equipment. The principal amount of the lease was \$321,768. This lease was paid in full in September 2008.

**F. Road Equipment - Financing Obligation**

On June 27, 2008, Martin County entered into a lease agreement with the Kentucky Association of Counties leasing trust program for three dump trucks. The principal amount of the lease was \$310,455. The lease requires monthly interest payments with the final interest and principal payment in January 2010. The principal balance of the agreement was \$310,455 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 310,455	\$ 7,969
Totals	<u>\$ 310,455</u>	<u>\$ 7,969</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**G. Martin County Water Company – Financing Obligation**

In July 2005, the Martin County Fiscal Court issued financing obligations of \$200,000 to the Martin County Water Company. Financing proceeds were paid directly to the Water Company. The Water Company makes the lease payments directly to the trustee of the note to pay principal and interest. The note requires an annual interest and principal payments due March 20<sup>th</sup> of each year with a final payment due in March 2025. As of June 30, 2009, the principal amount outstanding was \$180,000. The principal amount outstanding corresponds to the receivable due to the county. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 5,000	\$ 9,199
2011	10,000	8,881
2012	10,000	8,391
2013	10,000	7,885
2014	10,000	7,385
2015-2019	50,000	29,413
2020-2024	70,000	15,155
2025	15,000	753
Totals	<u>\$ 180,000</u>	<u>\$ 87,062</u>

**H. Martin County Inez Fire District –Financing Obligation**

In February 2007, the Martin County Fiscal Court issued financing obligations of \$152,000 to the Martin County Inez Fire District. Financing proceeds were paid directly to the Fire District. The Fire District makes the lease payments directly to the trustee of the note to pay principal and interest. The note requires variable monthly payments with a final payment due in December 2018. As of June 30, 2009, the principal amount outstanding was \$128,794. The principal amount outstanding corresponds to the receivable due to the county. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 10,820	\$ 6,442
2011	11,384	5,863
2012	11,977	5,263
2013	12,601	4,623
2014	13,258	3,952
2015-2019	68,754	8,524
Totals	<u>\$ 128,794</u>	<u>\$ 34,667</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**I. Sanitation Equipment – Financing Obligation**

On July 22, 2008, Martin County entered into a lease agreement with the Kentucky Association of Counties leasing trust program for three dump trucks. The principal amount of the lease was \$372,336. The lease requires monthly interest payments with the final interest and principal payment in January 2010. The principal balance of the agreement was \$372,336 as of June 30, 2009. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 372,336	\$ 8,651
Totals	<u>\$ 372,336</u>	<u>\$ 8,651</u>

**J. Road Equipment – Financing Obligation**

On August 22, 2007, Martin County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust program for the purchase of three dump trucks. The principal amount of the lease was \$321,768. This lease was paid in full in September 2008.

**K. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 1,430,000	\$	\$ 185,000	\$ 1,245,000	\$ 190,000
Financing Obligations	<u>1,832,231</u>	<u>372,336</u>	<u>877,982</u>	<u>1,326,585</u>	<u>928,611</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 3,262,231</u>	<u>\$ 372,336</u>	<u>\$ 1,062,982</u>	<u>\$ 2,571,585</u>	<u>\$ 1,118,611</u>

**Note 7. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$70,989 in interest on financing obligations and \$66,843 in interest on bonds and notes.

**MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 8. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Deferred Compensation**

On February 24, 2000, the Martin County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 10. Insurance**

For the fiscal year ended June 30, 2009, Martin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 11. Prior Period Adjustments**

The beginning net assets of governmental activities have been restated by \$74,000 to account for a capital asset error in the prior year.

The beginning net assets of the Economic Development Authority, a discretely presented component unit, have been restated by \$1,200,000 to account for a capital asset that was not accounted for in the prior year.

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**





**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2009**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 649,500	\$ 649,500	\$ 777,273	\$ 127,773
In Lieu Tax Payments			5	5
Excess Fees	5,000	5,000	21,095	16,095
Licenses and Permits	500	500		(500)
Intergovernmental Revenue	160,480	160,480	177,396	16,916
Charges for Services	2,000	2,000	1,788	(212)
Miscellaneous	285,854	285,854	313,188	27,334
Interest	500	500	1,473	973
Total Revenues	<u>1,103,834</u>	<u>1,103,834</u>	<u>1,292,218</u>	<u>188,384</u>
<b>EXPENDITURES</b>				
General Government	1,049,449	1,049,449	984,575	64,874
Protection to Persons and Property			4,393	(4,393)
General Health and Sanitation	200	200		200
Social Services	4,300	4,300	4,200	100
Debt Service	25,533	25,533	11,087	14,446
Administration	478,630	478,630	385,558	93,072
Total Expenditures	<u>1,558,112</u>	<u>1,558,112</u>	<u>1,389,813</u>	<u>168,299</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(454,278)</u>	<u>(454,278)</u>	<u>(97,595)</u>	<u>356,683</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	273,879	273,879	210,000	(63,879)
Transfers To Other Funds	<u>(69,601)</u>	<u>(69,601)</u>	<u>(69,687)</u>	<u>(86)</u>
	<u>204,278</u>	<u>204,278</u>	<u>140,313</u>	<u>(63,965)</u>
Net Changes in Fund Balance	(250,000)	(250,000)	42,718	292,718
Fund Balance - Beginning	<u>250,000</u>	<u>250,000</u>	<u>321,677</u>	<u>71,677</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 364,395</u>	<u>\$ 364,395</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 914,000	\$ 914,000	\$ 1,254,515	\$ 340,515
Miscellaneous	332,541	332,541	214,360	(118,181)
Interest	700	700	2,431	1,731
Total Revenues	<u>1,247,241</u>	<u>1,247,241</u>	<u>1,471,306</u>	<u>224,065</u>
<b>EXPENDITURES</b>				
General Government	18,000	18,000	18,000	
Roads	855,432	855,432	460,569	394,863
Airport			207,997	(207,997)
Debt Service	355,738	355,738	367,363	(11,625)
Administration	210,492	210,492	197,440	13,052
Total Expenditures	<u>1,439,662</u>	<u>1,439,662</u>	<u>1,251,369</u>	<u>188,293</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(192,421)</u>	<u>(192,421)</u>	<u>219,937</u>	<u>412,358</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	300,000	300,000		(300,000)
Transfers From Other Funds	(163,879)	(163,879)	(147,100)	16,779
Total Other Financing Sources (Uses)	<u>136,121</u>	<u>136,121</u>	<u>(147,100)</u>	<u>(283,221)</u>
Net Changes in Fund Balance	(56,300)	(56,300)	72,837	129,137
Fund Balance - Beginning	<u>56,300</u>	<u>56,300</u>	<u>281,380</u>	<u>225,080</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 354,217</u>	<u>\$ 354,217</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>LGEA Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,800,000	\$ 1,800,000	\$ 2,378,032	\$ 578,032
Charges For Services	500	500	260	(240)
Miscellaneous	327,000	327,000	15,969	(311,031)
Interest	500	500	3,293	2,793
Total Revenues	<u>2,128,000</u>	<u>2,128,000</u>	<u>2,397,554</u>	<u>269,554</u>
<b>EXPENDITURES</b>				
General Government	54,852	54,852	52,005	2,847
Protection to Persons and Property	36,377	36,377	43,193	(6,816)
General Health and Sanitation	835,042	835,042	447,470	387,572
Social Services	650	650		650
Recreation and Culture	158,094	158,094	209,003	(50,909)
Roads	499,000	499,000	471,766	27,234
Debt Service	459,979	459,979	473,066	(13,087)
Administration	193,196	193,196	229,145	(35,949)
Total Expenditures	<u>2,237,190</u>	<u>2,237,190</u>	<u>1,925,648</u>	<u>311,542</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(109,190)</u>	<u>(109,190)</u>	<u>471,906</u>	<u>581,096</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	335,000	335,000	45,000	(290,000)
Transfers To Other Funds	(478,810)	(478,810)	(408,319)	70,491
Total Other Financing Sources (Uses)	<u>(143,810)</u>	<u>(143,810)</u>	<u>(363,319)</u>	<u>(219,509)</u>
Net Changes in Fund Balances	(253,000)	(253,000)	108,587	361,587
Fund Balances - Beginning	<u>253,000</u>	<u>253,000</u>	<u>498,721</u>	<u>245,721</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 607,308</u>	<u>\$ 607,308</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>State Grant Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 5,000,000	\$ 5,000,000	\$ 1,623,971	\$ (3,376,029)
Interest	1,000	1,000	1,204	204
Total Revenues	5,001,000	5,001,000	1,625,175	(3,375,825)
<b>EXPENDITURES</b>				
General Government			66,828	(66,828)
Protection to Persons and Property			70,813	(70,813)
General Health and Sanitation			458,361	(458,361)
Social Services			12,297	(12,297)
Recreation and Culture			337,839	(337,839)
Capital Projects			47,100	(47,100)
Administration	5,101,000	5,101,000	693,060	4,407,940
Total Expenditures	5,101,000	5,101,000	1,686,298	3,414,702
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(100,000)	(100,000)	(61,123)	38,877
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			87,882	87,882
Transfers To Other Funds			(30,000)	(30,000)
Total Other Financing Sources (Uses)			57,882	57,882
Net Changes in Fund Balances	(100,000)	(100,000)	(3,241)	96,759
Fund Balances - Beginning	100,000	100,000	210,720	110,720
Fund Balances - Ending	\$ 0	\$ 0	\$ 207,479	\$ 207,479

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>OCCUPATIONAL TAX FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenues	\$ 1,100,000	\$ 1,100,000	\$ 1,280,528	\$ 180,528
Miscellaneous			11,344	11,344
Interest	2,500	2,500		(2,500)
Total Revenues	1,102,500	1,102,500	1,291,872	189,372
<b>EXPENDITURES</b>				
General Government	31,230	31,230	29,633	1,597
Protection to Persons and Property	331,460	331,460	302,812	28,648
General Health and Sanitation	57,414	57,414	25,747	31,667
Social Services	45,000	45,000	60,000	(15,000)
Recreation and Culture	185,000	185,000	177,711	7,289
Roads	100,000	100,000	118,576	(18,576)
Debt Service	111,425	111,425	111,425	
Administration	255,971	255,971	232,132	23,839
Total Expenditures	1,117,500	1,117,500	1,058,036	59,464
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(15,000)	(15,000)	233,836	248,836
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			86	86
Transfers To Other Funds	(110,000)	(110,000)	(150,782)	(40,782)
Total Other Financing Sources (Uses)	(110,000)	(110,000)	(150,696)	(40,696)
Net Changes in Fund Balances	(125,000)	(125,000)	83,140	208,140
Fund Balances - Beginning	125,000	125,000	83,973	(41,027)
Fund Balances - Ending	\$ 0	\$ 0	\$ 167,113	\$ 167,113

**MARTIN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Reconciliation Between Budgetary Basis and Modified Cash Basis**

	<b>Local Government Economic Assistance Fund</b>
<u>Expenditures</u>	
Budgetary Basis	\$ 1,925,648
Dump Trucks Lease	<u>372,336</u>
Modified Cash Basis	<u><u>\$ 2,297,984</u></u>
<u>Other Financing Sources (Uses)</u>	
Budgetary Basis	\$ (363,319)
Financing Obligation Proceeds	<u>372,336</u>
Modified Cash Basis	<u><u>\$ 9,017</u></u>

**MARTIN COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2009**

**MARTIN COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2009**

	<b>Jail Fund</b>	<b>Pride Grant Fund</b>	<b>Forestry Fund</b>	<b>Local Government Economic Development Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 28,789	\$ 33,375	\$ 1,623	\$ 25,965
Total Assets	<u>28,789</u>	<u>33,375</u>	<u>1,623</u>	<u>25,965</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	1,289			
Unreserved:				
Special Revenue Funds	<u>27,500</u>	<u>33,375</u>	<u>1,623</u>	<u>25,965</u>
Total Fund Balances	<u>\$ 28,789</u>	<u>\$ 33,375</u>	<u>\$ 1,623</u>	<u>\$ 25,965</u>

The accompanying notes are an integral part of the financial statements.



**MARTIN COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**June 30, 2009**  
**(Continued)**

<b>HUD Fund</b>	<b>Sheriff's Office Fund</b>	<b>Total Non-Major Governmental Funds</b>
<u>\$ 117,205</u>	<u>\$ 136,116</u>	<u>\$ 343,073</u>
<u>117,205</u>	<u>136,116</u>	<u>343,073</u>
	3,975	5,264
<u>117,205</u>	<u>132,141</u>	<u>337,809</u>
<u>\$ 117,205</u>	<u>\$ 136,116</u>	<u>\$ 343,073</u>

The accompanying notes are an integral part of the financial statements.

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**MARTIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2009**

**MARTIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2009**

	<b>Jail Fund</b>	<b>Pride Grant Fund</b>	<b>Forestry Fund</b>	<b>Local Government Economic Development Fund</b>
<b>REVENUES</b>				
Intergovernmental	\$ 49,475	\$ 1,200		
Miscellaneous	2,229			15,354
Interest	259			160
Total Revenues	<u>51,963</u>	<u>1,200</u>		<u>15,514</u>
<b>EXPENDITURES</b>				
General Government				
Protection to Persons and Property	337,403		3,928	
General Health and Sanitation		20,342		
Social Services				
Administration	45,956			5
Total Expenditures	<u>383,359</u>	<u>20,342</u>	<u>3,928</u>	<u>5</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(331,396)</u>	<u>(19,142)</u>	<u>(3,928)</u>	<u>15,509</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	359,065		4,254	
Transfers To Other Funds				
Total Other Financing Sources (Uses)	<u>359,065</u>		<u>4,254</u>	
Net Change in Fund Balances	27,669	(19,142)	326	15,509
Fund Balances - Beginning (Restated)	1,120	52,517	1,297	10,456
Fund Balances - Ending	<u>\$ 28,789</u>	<u>\$ 33,375</u>	<u>\$ 1,623</u>	<u>\$ 25,965</u>

The accompanying notes are an integral part of the financial statements.

**MARTIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>HUD Fund</b>	<b>Sheriff's Office Fund</b>	<b>Total Non-Major Governmental Funds</b>
	\$ 302,732	\$ 353,407
	10,857	28,440
1,456		1,875
1,456	313,589	383,722
	239,570	239,570
		341,331
		20,342
140,550		140,550
	70,479	116,440
140,550	310,049	858,233
(139,094)	3,540	(474,511)
	114,601	477,920
	(15,000)	(15,000)
	99,601	462,920
(139,094)	103,141	(11,591)
256,299	32,975	354,664
\$ 117,205	\$ 136,116	\$ 343,073

The accompanying notes are an integral part of the financial statements.

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**ECONOMIC DEVELOPMENT AUTHORITY  
A COMPONENT UNIT OF MARTIN COUNTY  
BALANCE SHEET - GOVERNMENTAL FUND - MODIFIED CASH BASIS**

**June 30, 2009**





**ECONOMIC DEVELOPMENT AUTHORITY  
A COMPONENT UNIT OF MARTIN COUNTY  
BALANCE SHEET - GOVERNMENTAL FUND - MODIFIED CASH BASIS**

**June 30, 2009**

	<b><u>Economic Development Authority</u></b>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 333,567
Total Assets	<u>333,567</u>
<b>FUND BALANCE</b>	
Unreserved	333,567
Total Fund Balance	<u>\$ 333,567</u>

**Reconciliation to Statement of Net Assets:**

Total Fund Balance	\$ 333,567
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	8,746,208
Accumulated Depreciation	<u>(245,496)</u>
Net Assets of Governmental Activities	<u>\$ 8,834,279</u>

The accompanying notes are an integral part of the financial statements.

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**ECONOMIC DEVELOPMENT AUTHORITY  
A COMPONENT UNIT OF MARTIN COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



	Economic Development Authority
<b>REVENUES</b>	
Charges for Services	\$ 68,888
Intergovernmental	4,551,048
Interest	847
Total Revenues	4,620,783
<b>EXPENDITURES</b>	
General Government	77,241
Capital Projects	4,543,060
Total Expenditures	4,620,301
Excess of Revenues Over Expenditures Before Other Financing Sources (Uses)	482
Net Change in Fund Balances	482
Fund Balances - Beginning	333,085
Fund Balances - Ending	\$ 333,567

Net Change in Fund Balances - Total Governmental Fund	\$	482
-------------------------------------------------------	----	-----

Capital Outlay	5,689,560
Prior Year Construction-In-Progress	(1,016,501)
Depreciation	(143,103)
Change in Net Assets	<u>\$ 4,530,438</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kelly Callaham, Martin County Judge/Executive  
Members of the Martin County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Martin County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 5, 2010. Martin County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Martin County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Martin County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Martin County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Martin County's financial statements for the year ended June 30, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Should Pay For Purchases Within 30 Working Days Of Receipt Of Vendor Invoices
- The County Judge/Executive Should Direct The Economic Development Authority To Maintain Complete And Accurate Records

This report is intended solely for the information and use of management, the Martin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen  
Auditor of Public Accounts

August 5, 2010

**MARTIN COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2009**



**MARTIN COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2008**

**STATE LAWS AND REGULATIONS**

**The County Should Pay For Purchases Within 30 Working Days Of Receipt Of Vendor Invoices**

The Fiscal Court did not pay invoices within 30 days. KRS 65.140(2) requires local governments to pay for purchases within 30 days of receipt of a vendor's invoice unless the purchaser and vendor have otherwise contracted. KRS 65.140(3) states that if a payment of invoices exceeds 30 days, a 1% penalty should be added. We recommend the fiscal court pay for purchases within 30 working days of receipt of vendor invoices or compensate vendors the 1% interest penalty set forth in KRS 65.140(2).

*County Judge/Executive Kelly Callaham's Response:* None.

**The County Judge/Executive Should Direct The Economic Development Authority To Maintain Complete And Accurate Records**

The Martin County Economic Development Authority (the Authority), a component unit of the Martin County Fiscal Court, should maintain a receipts and disbursements ledger, reconcile monthly bank statements, maintain a capital asset listing, and prepare an annual financial statement to submit to the fiscal court. Our review of the Authority discovered that the director does not maintain these records as required by the Uniform System of Accounts. During Fiscal Year End 6/30/2009, the Authority expended approximately \$4,620,000 for the construction of the Inez Business Center. Since the County Judge/Executive appoints board members to the Authority, we recommend the County Judge/Executive direct the Economic Development Authority to maintain complete and accurate accounting records, including a receipts and disbursements ledger, monthly bank reconciliations, capital asset listings, and monthly financial reports.

*County Judge/Executive Kelly Callaham's Response:* None.

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND LOCAL GOVERNMENT ECONOMIC  
DEVELOPMENT PROGRAMS**

**MARTIN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**





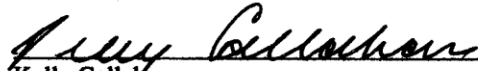
**CERTIFICATION OF COMPLIANCE**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

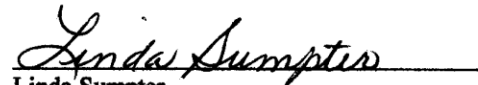
**MARTIN COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2009**

The Martin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Kelly Callahan  
County Judge/Executive



Linda Sumpter  
County Treasurer

